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1 April 1955

Ch/D/A

Ch/D/E

Comments on Tentative Outline of Intelligence Review of Economic Defense Problems.

1. The outline of such a study is of vital importance and merits most careful and thoughtful treatment as it must serve as the basis for a workable economic defense policy. Any determination of what commodities should be controlled or what level of control should be exercised of necessity must be realistic, and insofar as it serves as the basis for international controls, acceptable to COCOM countries.

2. The exploration of various techniques for measuring the cost to the Bloc of a curtailment of Bloc imports, as well as various definitions of this "cost", through the use of ruble-dollar ratios as indicators of relative costs of production as described in section IV B would be an interesting and meritorious exercise. It would be, however, a time consuming, complicated process, fraught with the dangers inherent in the lack of adequate, reliable statistical data. From D/E's long experience with tortuous COCOM negotiations, it appears inconceivable that such a method would be accepted by COCOM countries as the basis for security trade controls, even if it were approved by US policy makers, which appears unlikely.

3. The present outline is illogical and contradictory in several places.

a. In I3, it is stated that the real problem is "what commodities should be denied," whereas IVB indicates that "the paper will not result in a list of commodities, or commodity categories." It would thus seem that the whole paper as outlined would throw very little light on the main problem involved.

b. IIA states that the present COCOM program "does not greatly reduce over-all volume of trade," but IIB reads "the present program limits total trade and, therefore, imposes a cost on the Bloc economy which can be thought of as an impairment of Bloc economic capabilities."

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c.III(1) points out the almost insuperable difficulties involved in measuring the cost of denying the Bloc various imported goods, whereas in paragraph III(4) we read that, "conceptually, therefore, most logical approach would be that which selects commodities for denial on the basis of maximizing overall cost of control program to the Bloc. . . ." If a concept is logical but impossible to use in practice, it would appear illogical to incorporate it as the basis for the proposed study.

4. In paragraph III(3), the statement is made that "In few, if any cases can denial be confidently assumed to have reduced the output of any particular military goods in the Soviet Bloc." This is patently incorrect when account is taken of the denial of a whole galaxy of prototypes. It was impossible, for example, for the Bloc to produce a certain type of radar until they were able to obtain a US prototype under lend-lease. The same applies to denial of western scientific and technological advances. At least an element of delay is injected into USSR military production by embargo not only of prototypes but of commodities in short supply in the Bloc.

5. The description of Present Policies in section II and the Evaluation of Present Programs III, are not entirely accurate and in any event require redrafting.

6. In section IV, Alternative Possibilities in Trade Control Policy, it is suggested that "overall value quotas for free world exports to each Bloc country" be considered. The difficulties of administering the present system of a quota for the bloc as a whole suggests ill for quotas for each individual ^{country}. The possibility of instituting western import controls against the Bloc is also suggested. The basis for the institution of import controls by the US against Communist China was the fact that we were at war with that country. None of the other COCOM countries, except Canada, went along with this US action even though some of them were sending men to fight in North Korea. They certainly would not be expected to accede to such controls against the whole Bloc nor would the US business community.

In general, the whole outline needs revision and a more realistic approach to the problem.

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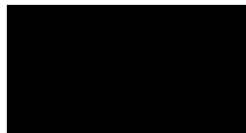
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1 April 1955

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MEMORANDUM FOR RECORD

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Meeting -



D/E
Ch/D/A
D/A
E/C
D/A

Date: 4 April 1955

Subject: D/E criticism of draft outline for a review of Economic Defense Policy for the Dodge Council.

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[redacted] opened the meeting by announcing that the paper we were there to discuss had been submitted a few days earlier (without D/E knowledge) to the drafting Subcommittee and had already been approved in principle. D/A

Subsequent questions regarding the appropriateness of using estimates of cost to the bloc of denial of certain commodities on the basis of a ruble-dollar ratio elicited the following information.

1. D/A admitted the lack of complete statistical data and that a finished study would require a year's time.
2. Even then there was no certainty that the study could be used for the intended purpose—new criteria.
3. No study has as yet been made of cost accounting practices in the Sovbloc.
4. The cost prices used are annual figures and can be checked only rarely against spotty current price data.
5. Cost data of the type available for the European Sovbloc, such as they are, are virtually non-existent for Communist China.
6. They were unaware of the imminence of a review of the ChinCom lists and therefore of the urgency of a practical paper.
7. It was admitted that "prototypes" did not lend themselves to their proposed method of estimating costs.
8. D/E's concern regarding "saleability" to COCOM had not been taken into consideration, nor had the difficulties of administration of separate quotas for each satellite.
9. The contradictions and inconsistencies in the report were explained by the fact that the first three sections of the report were written by OIR and the remaining two by D/A. Incidentally D/E has not yet seen Section V.

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It was apparent that nothing D/E could say would prevent D/A from going ahead with their project as outlined. Ch/D/E asked Ch/D/A if he would object to D/E writing a more practical alternative paper. The answer was "not at all."

E/C/RR

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5 April 1955

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